

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON SIYANDA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Siyanda District Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, the notes comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Siyanda District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of MFMA and DORA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 30 June 2012 in the financial statements of the Siyanda District Municipality at, and for the year ended, 30 June 2011.

Material losses

9. As disclosed in note 32 to the financial statements, the municipality incurred a loss on disposal of property, plant and equipment to the amount of R46 601 042. The loss was due to the transfer of property, plant and equipment to local municipalities in the district in accordance with Proclamation no. 15/2012 dated 4 February 2012 published in the Provincial Gazette.

Material under spending conditional grants

10. As disclosed in note 12 to the financial statements, the municipality has materially underspent on its conditional grants to the amount of R6 228 402. As a consequence, the municipality has not achieved on its objectives set for the financial year under review.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

12. Annexures A to F to the financial statements do not form part of the financial statements and are presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages xx to xx of the annual report.

15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

16. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. The material findings are as follows:

Usefulness of information

Measurability

18. The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 38% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not interpret the requirements correctly to enable the application of the principles

19. The National Treasury *FMPPI* requires that performance targets be measurable. The required performance could not be measured for a total of 38% of the targets. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not interpret the requirements correctly to enable the application of the principles.

Compliance with laws and regulations

20. I performed procedures to obtain evidence that the entity had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budget management

21. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

22. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
Material misstatements of land, provisions, trade creditors, contingent assets, irregular expenditure and unauthorised expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

23. The accounting officer did not take reasonable steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Procurement and contract management

- 24. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).
- 25. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).
- 26. Contracts were extended without tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
- 27. Awards were made to providers who are persons in service of other state institutions, in contravention of SCM regulations 44.

Internal control

- 28. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. I did not identify any deficiencies in internal control which I considered sufficiently significant for inclusion in this report.

Leadership

- 29. Leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.
- 30. Leadership did not ensure that the municipality has adequately documented policies and procedures for the prevention of irregular expenditure, resulting in instances of non-compliance with the MFMA, as detailed under the "findings on compliance with laws and regulations" section of this report.

Financial and performance management

- 31. Management did not perform an adequate review of the disclosure notes for accuracy and completeness prior to submission of the annual financial statements. This resulted in various disclosure notes being materially misstated due to the incorrect interpretation or inadequate review to ensure the annual financial statements agree to the supporting documentation.
- 32. Management did not ensure that the performance targets set are specific and measurable. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not interpret the requirements correctly to enable the application of the principles.

Governance

- 33. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
- 34. The financial statements were subject to material corrections resulting from the audit, which can be attributed to the lack of risk assessments, weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.

35. Internal audit and audit committee did not adequately review the annual financial statements prior to submission which resulted in numerous material misstatements not being corrected.

Auditor General

Kimberley

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

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